

# Some Phases of Mutual Insurance in the United States.

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## SOME PHASES OF MUTUAL INSURANCE IN THE UNITED STATES.

The first mutual insurance company of which we have any authentic record was known as the " Hand and Hand Contribution Society of London ". This organization was formed by the "Poor Societies" of London and its plan was that the poorer class of people should do something to help one another and in this way relieve the "Poor Societies" of part of the care that this class of people cause. This company was organized in 1696 and was very efficient. Magnus however mentions in 1755 a "Fire Casa" as having existed in Hamburg for a very long time and as exactly representing the mutuals in England. It was a combination of Hamburg merchants for their mutual protection from fire.

The mutual form of insurance which we see is of long standing in European countries, did not reach America until 1798. The statutes of New York show that "The Mutual Insurance Company of the City of New York" was incorporated March 23, 1798, and this, in all probability, was the first mutual company established in this country. The next company that we have any record of is the "Washington Mutual", which was established March 30, 1802.

These two companies were the pioneers of mutual insurance in



this country, indeed, until 1830 they did nearly all the mutual insurance that was done in America, because this form of insurance seemed to lapse in public favor and there was no inducement for new companies to organize.

As to the purpose of such organizations, a mutual company, like any other insurance company, is organized to distribute suffering more evenly, not to less<sup>s</sup> the aggregate amount. This is shown by the fact that in all these companies the "sum assessed in case of loss is in proportion to the sum of the original investment". The fact that they do distribute the load of suffering more evenly is one of the prime reasons for their existence as part of society because the "True use of society is for Mutual good".

Beginning with 1831 we see a revival of interest in mutual insurance. The revival began with the establishment of the "Schohaire Mutual", which incorporated April 22, 1831. From this time on mutual insurance was an assured success. Within fifteen years after the incorporation of the "Schohaire" no less than eighty companies were organized, and although they differed in some minor details, yet a study of one will serve as a study of all.

The membership of a mutual company consists of all persons who are insured in the company, and the management is vested in a

board of trustees or directors who are elected by the members of the company. Herein is one advantage of mutual companies. Every insured person is an insurer and consequently there is no inducement to raise the rates. Safety, not profit, is what is sought after. The rates and sums to be deposited by members are decided upon by the directors.

The capital fund is that portion of the property of the company set apart for the payment of losses. This capital consists of the promissory notes of members, the insurance rates paid in, the profits on past dealings, and the certificates of deposit.

The liabilities of directors and members vary a great deal in different companies. In the Schohaire the charter says that "each director shall stand harmless and always stand to be indemnified by the members of said corporation in proportion to the amount that each member has insured by said corporation, and that neither of said directors shall be liable for the default of any of the other directors". In the American Manufacturer's Mutual Assurance Company, <sup>n</sup>~~No~~ director~~x~~ or member can be held personally for policies or contracts of said corporation. In fact the early statutes governing corporations say very little in regard to the liabilities of directors and members. Corporations however were generally



governed by their charters and the liability of a member or director of a mutual insurance company was based upon what the charter of that particular company said in regard to it.

The profits of a mutual company are always expended for the benefit of the assured. In some cases the profits are divided among the members while in other cases they are applied on premiums to reduce the rate. The Atlantic Mutual Insurance Company issues to the assured redeemable scrip, representing a share of the profits of the business. In the United Insurance Company organized in 1841, interest on stock and profits of business are divided. The part of the profits of a company that is kept with the capital fund as a part of this fund is just as liable for losses and expenses as the capital fund itself. This capital fund is also taxable.

Mutual Companies at the present day in this country take all kinds of risks, or, rather, there are separate companies for each kind. We however shall deal only with mutual fire and life insurance. We have noticed some of the more important facts concerning fire insurance now let us look at mutual life insurance.

The first mutual life insurance company established in the United States was organized in 1830. There was very little done in this line for some time following this and it was reserved for

the "Mutual Life Insurance Company of New York" to advance this system to the position it now holds in the insurance world. This company was organized in 1842. Within the next few years many new companies were formed and several large English companies established offices in New York City.

In regard to the membership and government of the Mutual life companies, they are but very little different from those of the fire mutuals. In mutual life companies the members get the benefit of the interest that accumulates from the moneys in the hands of the company. This is where mutual companies have the advantage over stock companies because in a stock company the insured gets no benefit at all from the interest that is accumulating all the time.

In a mutual company a person may be insured for life or for a certain number of years. In the latter case after the time is up the person may draw out the money he is insured for, or he may let it remain and increase until his death. Insurance is also written on joint lives payable to the survivor. Life risks as a rule are only guaranteed to persons of general good health. The reason is easily seen in the fact that in insurance the law of averages is considered very important, and to insure an unhealthy person would be for the company to guarantee a case that was not



general but exceptional, and likely to change the death list. Of course a mutual company is run on nearly the same principles as any other insurance company with regard to the method according to which policies are issued. This is as it should be for an insurance company is generally managed on nearly as good business principles as any institution. As it is to the advantage of both insurer and insured to have their company a very sound one, there are very rarely any bad risks taken.

One thing which at first defeated one of the prime objects of mutual life insurance was the precedence a man's creditors had over his wife and children in the settlement of his estate. This gave the creditors a chance to take all the insurance money and leave the wife and family without any. The Legislature of New York, recognizing in this something of an unjust nature enacted that the wife should have a prior claim to her husband's insurance money and be free from her husband's creditors, provided the rate of interest paid by her husband had not exceeded three hundred dollars per annum. This was enacted about 1844.

At this early time a good many mutual companies took both fire and life risks. In the case of both the general law of "regularity in the aggregate" is recognized. In the case of both also, the identity of both the <sup>n</sup> insurer and insured causes a saving

of money, and losses are reduced to a minimum. Of course the argument is brought forth that all the care in the world will not lessen the death rate. This is not an argument that will hold at all because it is generally recognized that sanitary conditions have a great deal to do with the death rate of a community, and if any thing is an incentive to a man, surely membership in a life insurance company is an incentive to work for better sanitary conditions, and in so doing secure better general healthfulness for the people of his community.

Just as it is in the interest of a mutual life company to keep the number of deaths at a minimum, so it is to the advantage of mutual fire companies to keep the number of fires down to as small a number as possible. It will be understood how this is done when we remember that the insured being the insurers, will naturally be more careful about their buildings. They are influenced by this to keep a sufficient amount of extinguishing apparatus on hand, to have their buildings well supplied with water and to construct their buildings in the first place of material that is not combustible. This last however is something that many will pay very little attention to because at first it seems more expensive, although in the long run it will without a doubt prove the cheaper, method of construction.



A Mutual fire company's chief mission is to prevent fire, by the co-operation of the owners, the architect, and the contractor. When these three do their full share towards bettering the conditions of buildings against fire then mutual fire insurance will have accomplished its aim and the cost of insurance will have been reduced to a minimum. This policy of the Mutual Companies is in direct opposition to that of the stock companies, which often fight against improvements for protection from fire because their profits come by charging high rates on bad risks.

One thing that at first caused a great hardship for members of mutual insurance companies was the payment of very large yearly dividends by the companies in years when the casualties were few and consequently the losses very light. The companies of course did this to attract new members because the companies that showed the largest dividend had the advantage when showing their benefits to new insurers. On the other hand these companies were in a very bad shape if a year came when there were many and very disastrous fires, or if the death rate was suddenly increased by an epidemic. These things were sure to come and then the companies that had been content with small dividends in prosperous years had the advantage because they did not need to put their rates beyond reach of the class of people that insurance companies depend upon

for their existence.

The mutual companies came to learn this fact after one or two great disasters. The great fire of the warehouses in New York in 1845 had a great deal to do with teaching the companies the right way and it also had considerable to do with the development of mutual insurance. Out of all the companies forced to wind up their affairs at this time, only two were mutual companies and even these two were able to settle their affairs satisfactorily to their creditors, a thing that the stock companies could not do. Consequently new insurers, and merchants who had previously insured in stock companies, seeing the advantage of the mutual companies were more favorably inclined towards the mutuals and in this way gave them a great impetus.

That mutual insurance is continually growing in popularity is evinced by the fact that so many local mutual insurance companies are coming into existence. This is especially true in the United States. In New York State as early as 1845 very nearly every county had its mutual fire insurance companies. In Illinois, very many localities have their mutual companies made up of farmers for their own protection against fires and tornadoes. Even in our own county we find a large number of local mutual insurance companies. In the cities merchants form mutual life, fire, and tornado



companies. The insurance of plate glass by mutual companies is very popular.

Not alone in these local institutions does the mutual plan exist, but also in the secret orders of the United States. Mutual benefit is what all of these orders are based upon and there are very few of them which do not have an insurance department attached. There are also many orders organized simply for the purpose of insuring life on the mutual plan.

Long ago it was suggested that one day there would be in each country a system of national insurance. This system would insure everybody that would work and help contribute to the good of society, in every way possible against misfortune. Of course at the time the thing was laughed at as something that would never be practicable; but one would scarcely want to say that at the present time, for in Germany to day there is a system of insurance which, though it probably does not go so far as was suggested is, nevertheless a very successful start in the right direction. The system referred to is the Workingman's Insurance Company and it has been a very great aid to German workingmen.

If we look back and consider the growth of Mutual insurance in the United States in the last fifty years how can we say that there is no probability of ever having a system of mutual insurance

that will not, of course, lighten the entire load of misfortune;  
but will more evenly distribute it and make society, which is  
often the cause of a man's misfortune, help him bear it.



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